

Letter from the CEO  
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	LARGE CORPORATES		TRADING & INVESTMENT BANKING	
	2005	restated 2004	2005	restated 2004
in EUR million				
Net interest income	142.9	139.9	62.2	102.4
Risk provisions for loans and advances	-30.5	-37.9	-	-
Net commission income	82.2	71.2	70.9	51.7
Net trading result	1.5	1.2	84.5	87.1
General administrative expenses	-89.4	-83.0	-94.1	-93.5
Income from insurance business	-	-	-	-
Other operating result	-29.0	-7.7	-1.1	-7.0
Pre-tax profit for the year	77.8	83.8	122.2	140.8
less taxes	-18.7	-17.9	-32.0	-35.2
less minority interests	-3.6	-10.1	0.1	-
Net profit after minority interests	55.5	55.8	90.3	105.6
Average risk-weighted assets	6,668.4	6,860.9	3,754.7	3,792.1
Average attributed equity	503.7	441.9	283.6	244.2
Cost/income ratio	39.4%	39.1%	43.3%	38.8%
ROE based on net profit after minority interests	11.0%	12.6%	31.9%	43.2%
Funding costs	-15.2	-14.6	-1.4	-2.8
Impairment of goodwill	-	-	-	-

	CENTRAL EUROPE		ČESKÁ SPOŘITELNA		SLOVENSKÁ SPORITEL'ŇA	
	2005	restated 2004	2005	restated 2004	2005	restated 2004
in EUR million						
Net interest income	1,096.6	948.5	595.0	504.2	194.9	185.8
Risk provisions for loans and advances	-80.2	-49.9	-33.7	-15.8	-11.1	0.8
Net commission income	459.4	398.6	287.0	262.9	82.5	66.4
Net trading result	120.9	101.4	49.4	41.0	14.9	16.5
General administrative expenses	-989.1	-899.0	-550.1	-500.5	-167.3	-158.5
Income from insurance business	7.9	8.4	7.9	8.4	-	-
Other operating result	-22.6	-61.5	8.7	-10.8	-13.2	-28.4
Pre-tax profit for the year	592.9	446.4	364.1	289.3	100.6	82.6
less taxes	-131.0	-105.0	-90.2	-89.5	-13.5	-7.2
less minority interests	-24.7	-36.8	-8.5	-6.1	0.1	-18.2
Net profit after minority interests	437.2	304.5	265.4	193.7	87.3	57.2
Average risk-weighted assets	16,562.5	13,318.7	9,136.9	7,491.5	2,421.5	1,890.2
Average attributed equity	1,251.2	874.8	690.2	492.1	182.9	124.2
Cost/income ratio	58.7%	61.7%	58.6%	61.3%	57.2%	59.0%
ROE based on net profit after minority interests	34.9%	34.8%	38.5%	39.4%	47.7%	46.1%
Funding costs	-63.3	-64.8	-22.0	-26.4	-16.0	-11.1
Impairment of goodwill	-	-	-	-	-	-

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	ERSTE BANK HUNGARY		ERSTE BANK CROATIA		ERSTE BANK SERBIA	
	2005	restated 2004	2005	restated 2004	2005	restated 2004
in EUR million						
Net interest income	204.4	174.0	100.3	84.5	2.1	-
Risk provisions for loans and advances	-17.1	-30.0	-14.4	-4.9	-3.9	-
Net commission income	64.8	52.6	23.3	16.7	1.9	-
Net trading result	34.6	31.3	20.4	12.6	1.7	-
General administrative expenses	-185.8	-175.7	-75.3	-64.3	-10.7	-
Income from insurance business	-	-	-	-	-	-
Other operating result	-16.7	-21.0	-1.7	-1.3	0.2	-
Pre-tax profit for the year	84.3	31.3	52.7	43.2	-8.8	-
less taxes	-17.0	0.3	-10.5	-8.6	0.2	-
less minority interests	-0.2	-0.1	-16.6	-12.4	0.3	-
Net profit after minority interests	67.1	31.5	25.6	22.1	-8.3	-
Average risk-weighted assets	2,606.5	2,031.2	2,289.8	1,905.9	107.8	-
Average attributed equity	196.9	133.4	173.0	125.2	8.1	-
<b>Cost/income ratio</b>	<b>61.2%</b>	<b>68.1%</b>	<b>52.3%</b>	<b>56.6%</b>	<b>191.0%</b>	-
<b>ROE based on net profit after minority interests</b>	<b>34.1%</b>	<b>23.6%</b>	<b>14.8%</b>	<b>17.7%</b>	<b>-101.3%</b>	-
Funding costs	-19.9	-21.5	-4.4	-5.8	-1.0	-
Impairment of goodwill	-	-	-	-	-	-

## Segment reporting by region

	AUSTRIA		CENTRAL EUROPE	
	2005	restated 2004	2005	restated 2004
in EUR million				
Net interest income	1,558.3	1,563.4	1,117.3	962.0
Risk provisions for loans and advances	-332.8	-340.7	-79.6	-50.0
Net commission income	764.4	711.6	463.2	401.2
Net trading result	120.6	111.2	120.9	101.4
General administrative expenses	-1,648.2	-1,656.1	-990.9	-900.9
Income from insurance business	28.8	28.5	7.9	8.4
Other operating result	5.7	18.0	-22.6	-61.5
Pre-tax profit for the year	496.9	435.8	616.2	460.6
less taxes	-129.5	-144.2	-137.6	-106.7
less minority interests	-178.4	-161.1	-24.7	-36.8
Net profit after minority interests	188.9	130.4	453.9	317.0
Average risk-weighted assets	48,265.0	48,338.0	17,420.0	13,856.0

	REST OF EUROPE		NORTH AMERICA	
	2005	restated 2004	2005	restated 2004
in EUR million				
Net interest income	33.5	30.2	42.1	56.7
Risk provisions for loans and advances	-13.5	-4.4	6.1	-3.5
Net commission income	10.9	7.3	7.5	6.2
Net trading result	-0.6	1.3	0.3	1.3
General administrative expenses	-14.7	-14.1	-14.8	-15.4
Income from insurance business	-	-	-	-
Other operating result	-0.1	-3.8	0.8	-4.6
Pre-tax profit for the year	15.5	16.6	42.0	40.8
less taxes	-6.7	-1.3	-18.0	-18.6
less minority interests	-	-	-	-
Net profit after minority interests	8.7	15.3	23.9	22.2
Average risk-weighted assets	1,513.0	1,585.0	1,515.0	1,394.0

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	CENTRAL AND SOUTH AMERICA		ASIA	
	2005	restated 2004	2005	restated 2004
in EUR million				
Net interest income	2.6	1.8	36.0	42.8
Risk provisions for loans and advances	-0.8	-0.1	1.0	-4.9
Net commission income	5.6	4.4	4.6	4.4
Net trading result	-	-	0.6	1.4
General administrative expenses	-1.0	-1.0	-6.7	-7.0
Income from insurance business	-	-	-	-
Other operating result	-	-	-	0.8
Pre-tax profit for the year	6.4	5.1	35.4	37.5
less taxes	-1.7	-1.2	-5.8	-6.0
less minority interests	-	-	-	-
Net profit after minority interests	4.7	3.9	29.7	31.5
Average risk-weighted assets	150.0	112.0	1,036.0	1,057.0

	OTHER		TOTAL	
	2005	restated 2004	2005	restated 2004
in EUR million				
Net interest income	4.3	3.4	2,794.2	2,660.3
Risk provisions for loans and advances	-1.9	-2.6	-421.6	-406.2
Net commission income	0.6	0.4	1,256.8	1,135.4
Net trading result	-	-	241.7	216.5
General administrative expenses	-0.5	-0.4	-2,676.9	-2,594.9
Income from insurance business	-	-	36.7	36.8
Other operating result	-	-0.1	-16.1	-51.3
Pre-tax profit for the year	2.4	0.7	1,214.8	996.6
less taxes	-0.6	-	-300.0	-277.9
less minority interests	-	-	-203.1	-197.9
Net profit after minority interests	1.8	0.6	711.7	520.8
Average risk-weighted assets	127.0	129.0	70,025.0	66,470.0

**28) Additional information**

Assets and liabilities denominated in foreign currency:

	2005	restated 2004
in EUR million		
Assets	71,146	60,704
Liabilities	56,731	49,377

Only non-Euro-area currencies are now reported as foreign currencies.

Unconsolidated foreign investments and goodwill resulting from business combinations before 1 January 2005 are not reported as assets and liabilities denominated in foreign currencies.

	2005	restated 2004
in EUR million		
Assets	84,713	69,843
Liabilities	73,815	63,816

**29) Related party transactions**

Loans and advances to and amounts owed to unconsolidated subsidiaries and investments

	2005	restated 2004
in EUR million		
Loans and advances to credit institutions		
Associates accounted for at equity	99	46
Other investments	251	398
<b>Total</b>	<b>350</b>	<b>444</b>
Loans and advances to customers		
Unconsolidated subsidiaries	476	529
Associates accounted for at equity	226	323
Other investments	604	734
<b>Total</b>	<b>1,306</b>	<b>1,586</b>
Fair value through profit or loss and available for sale		
Unconsolidated subsidiaries	-	2
Associates accounted for at equity	36	36
Other investments	-	62
<b>Total</b>	<b>36</b>	<b>100</b>
Financial investments		
Associates accounted for at equity	4	4
Other investments	4	4
<b>Total</b>	<b>8</b>	<b>8</b>
Amounts owed to credit institutions		
Unconsolidated subsidiaries	3	2
Associates accounted for at equity	15	22
Other investments	2,214	2,296
<b>Total</b>	<b>2,232</b>	<b>2,320</b>
Amounts owed to customers		
Unconsolidated subsidiaries	86	46
Associates accounted for at equity	73	72
Other investments	126	124
<b>Total</b>	<b>285</b>	<b>242</b>
Debts evidenced by certificates		
Unconsolidated subsidiaries	4	5
Associates accounted for at equity	26	26
Other investments	42	114
<b>Total</b>	<b>72</b>	<b>145</b>
Subordinated capital		
Associates accounted for at equity	-	5
Other investments	28	7
<b>Total</b>	<b>28</b>	<b>12</b>

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At the end of 2005 DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, held 32.2% of the shares of Erste Bank AG, making it the largest shareholder. The purpose of the foundation, in addition to holding a substantial equity interest in Erste Bank AG, is to support social, scientific, cultural and charity institutions as well as generally promoting the guiding principles of the savings bank philosophy. The current members of the Managing Board are Andreas Treichl (chairman of the Managing Board of Erste Bank AG), Franz Ceska and Dietrich Karner. The Supervisory Board of the foundation had nine members at the end of 2005, two of whom are also members of the Supervisory Board of Erste Bank AG.

At 31 December 2005, the foundation reported accounts receivable from Erste Bank AG of EUR 2.4 million and accounts payable to Erste Bank AG of EUR 7.3 million. Standard derivative transactions for hedging purposes were in place between Erste Bank and the foundation at the end of 2005 (interest rate swaps with a nominal volume of EUR 136.2 million and caps and floors of EUR 316.4 million each).

As a result of accounts receivable and/or accounts payable to Erste Bank AG and the said derivative transactions, the private foundation generated interest income of EUR 1.8 million and paid interest of EUR 1.0 million in 2005 accrued to the reporting period.

At 31 December 2005, the foundation held 78,350,152 Erste Bank shares with a carrying amount of EUR 519.3 million. The foundation received a dividend of EUR 39.2 million on its holding in Erste Bank AG in 2005 (for the 2004 financial year).

### 30) Assets pledged as collateral

Assets in the amounts stated below were pledged as collateral for the following liabilities and contingent liabilities:

	2005	2004
in EUR million		
Amounts owed to credit institutions	6,168	1,307
Amounts owed to customers	147	349
Debts evidenced by certificates	918	1,088
Other obligations	174	19
<b>Total</b>	<b>7,407</b>	<b>2,763</b>

The following assets were pledged as collateral for the above-mentioned liabilities:

	2005	2004
in EUR million		
Loans and advances to		
credit institutions	181	1
Loans and advances to customers	1,119	1,275
Trading assets	23	78
Fair value through profit or loss and available for sale	1,655	217
Financial investments	5,151	1,555
Tangible assets	20	1
<b>Total</b>	<b>8,149</b>	<b>3,127</b>

**31) Fiduciary operations**

Fiduciary operations (not reported on the Balance Sheet) are broken down as follows:

in EUR million	2005	2004
<b>Assets held in trust</b>		
Loans and advances to credit institutions	67	53
Loans and advances to customers	7,063	2,263
Fair value through profit or loss and available for sale	859	768
<b>Total</b>	<b>7,989</b>	<b>3,084</b>
<b>Liabilities held in trust</b>		
Amounts owed to credit institutions	286	27
Amounts owed to customers	6,797	2,430
Debts evidenced by certificates	906	627
<b>Total</b>	<b>7,989</b>	<b>3,084</b>

**32) Risk management policies****Risk policy and -strategy**

The Erste Bank Group's approach to risk management seeks to achieve the best balance of risks and returns for earning a sustained high return on equity. The risk management strategy of the Erste Bank Group is marked by a conservative approach to risks facing a bank that is driven both by the requirements of customer-centred banking and by the legal environment. Under this risk management strategy, the Erste Bank Group uses a Group-wide system of risk monitoring and control designed to identify all risks throughout the Group (market, credit, business and operational risks), measuring these risks in terms of Value-at-Risk (VaR) and ultimately enables the management to exert active control over the identified and measured risks in order to attain the goal of optimising the risk-return relationship.

**Risk management organisation**

In keeping with relevant law (especially the Austrian Banking Act), the central responsibility for risk management lies with the Group Managing Board. One way in which the Managing Board performs this role is by setting an aggregate bank limit based on Value-at-Risk at the quarterly meeting of the Risk Committee (RC).

As set down in the Erste Bank Risk Rulebook, the role of the Risk Committee is to approve amendments to the rules where appropriate, allocate capital at the macro level, set an aggregate risk limit for the bank as a whole based on the bank's risk absorbing capacity, set an aggregate limit based on Value-at-Risk for market risk activities on the trading book, and define medium-term objectives for risk management.

In order to ensure comprehensive and integrated management of risks across the Erste Bank Group, independent risk control function and management as Managing Board level functions are exercised by the Chief Risk Officer (CRO). The CRO's sphere of responsibility includes the following service units:

“Strategic Risk Management“,  
 “Credit Risk Management Austria“,  
 “Credit Risk Management International“ and  
 “Credit Restructuring“.

The Strategic Risk Management service unit supports the Chief Risk Officer in furthering the disciplined handling of risks and in harmonising risk management applications for all risk types in the business units. Working closely with the risk management departments of the business units, this unit also ensures the implementation of the risk management strategy.



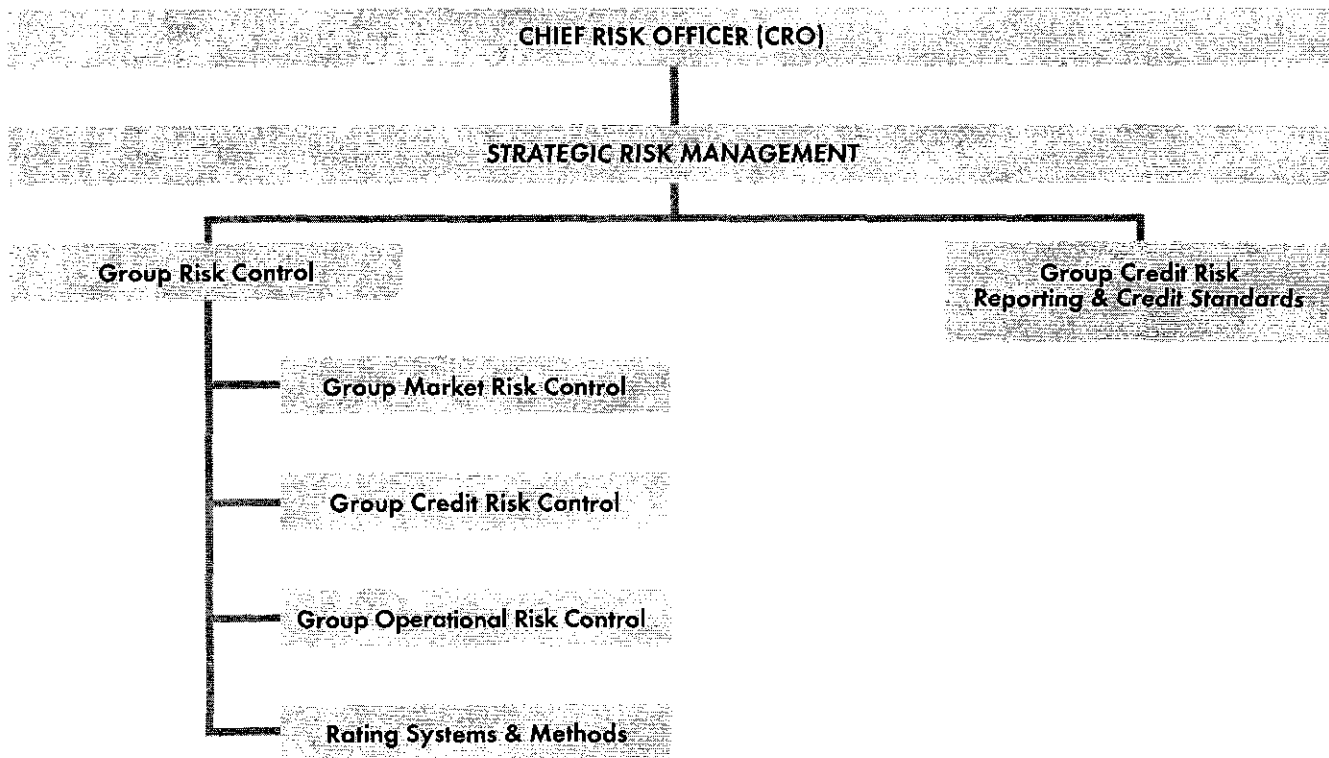
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At every level of the risk management process – particularly concerning market and credit risks – the measurement and monitoring functions are exercised independently of the front-office functions to be supervised (*separation of front-office and back-office function*).

In addition, the Chief Risk Officer is responsible for the development, implementation and monitoring of limit compliance, of risk reporting, of the risk management strategy and of the associated standards and processes.

The Chief Risk Officer also has oversight of credit risk control for the Erste Bank Group. Under the Chief Risk Officer's leadership, standards are defined for credit policy and processes, credit portfolio management and risk-adjusted pricing. As well, the Chief Risk Officer is the functional head of the entire credit risk management organisation.

In view of the growing demands placed on risk control, and in the interest of a clear definition of the roles and areas of authority of all units involved, the Group credit risk management and risk control activities are combined and bundled in the Strategic Risk Management service unit.



### **Risk Control**

The Group Risk Control department forms part of the Strategic Risk Management unit. Group Risk Control acts as a central and independent risk control unit as required by the Austrian Banking Act (Section 39 (2)) and formulates Group guidelines for processes relating to risk management (these guidelines are codified in the Erste Bank Risk Rulebook). As an organisational entity independent of the business units, Group Risk Control thus ensures that all measured risks are within the limits set by the Managing Board.

The core competencies of Group Risk Control in the risk control process include the daily computation, analysis and reporting of market risks for the whole Group and the timely and continuous monitoring of credit, business and operational risks on the basis of Value-at-Risk. Another key function is the aggregation of all risks (market, credit, business and operational) into a measure of total bank risk (economic capital) as part of the determination of the risk absorbing capacity. Finally, Group Risk Control also prepares regular reports to the Managing Board based on Value-at-Risk. In mid-2005, the mandate of the Group Risk Control department was extended to include developing and validating rating methods and systems in the Erste Bank Group.

To do justice to this broad mandate, Group Risk Control is divided into four groups, focusing on market, credit and operational risk and rating methods and systems. The market, credit and operational risk sub-units each calculate Value-at-Risk on an ongoing basis with the help of implemented models. Their other responsibilities include the refinement and updating of the models and measurement methods employed and the rollout of the risk control process in the Group. The rating methods and systems group is responsible for developing and implementing standard rating methods and systems throughout the Group.

### **Risk Control process**

The Erste Bank Group's independent risk control process has five elements:

**Risk identification** at the Erste Bank Group means the detection of all relevant risks related to banking operations. A systematic and structured approach to this task is emphasised. Aside from existing risks, potential risks also need to be identified. The aim of risk identification is the permanent, timely, rapid, complete and cost-effective detection of all individual risks that have a bearing on the achievement of the Erste Bank Group's business targets. However, risk identification is concerned not only with the early detection of risks themselves, but also the most complete possible recognition of all sources of risk.

**Risk measurement** at the Erste Bank Group means the valuation and analysis of all quantifiable risks on the basis of Value-at-Risk (VaR).

The **expected loss** is the average amount which Erste Bank loses per year in its business activities. This represents the average annual observed historical loss over the course of an economic cycle. These foreseeable costs enter into pricing as a risk premium (standard risk costs) and must be recouped through the terms extended to customers. The expected loss thus does not pose a risk for Erste Bank, but simply a „cost of doing business“.

The **unexpected loss** (equivalent to Value-at-Risk) is the maximum actual loss in excess of this expected loss for a given observation period and a predetermined probability of occurrence (expressed in terms of a confidence level). For this unexpected loss, equity capital must be set aside.

In addition, **stress scenarios** are defined, with the goal of quantifying the losses that may be triggered by extremely adverse, albeit highly unlikely, events. The information gained from stress test scenarios complements Value-at-Risk results, making it easier to predict the effects of potential extreme market movements.

**Risk aggregation** refers to the compilation of the results of Value-at-Risk-based risk measurement for the individual risk types (taking into account diversification effects) into an aggregate potential loss from the assumption of risk. This resulting aggregate measure is known as economic capital (representing Value-at-Risk at a confidence level of 99.95% over a one year time period). In a multi-stage process, this aggregate total potential loss from the assumption of risk (economic capital) is compared to the resources (earnings potential, reserves and equity) available to cover potential losses. At Erste Bank this is done as part of the determination of risk absorbing capacity.

**Risk limit-setting** at Erste Bank refers to the setting of a loss ceiling (aggregate bank limit) by the management through the Risk Committee (RC) based on the periodic determination of risk absorbing capacity, which takes into account the bank's equity base and profitability situation.

**Risk reporting** at Erste Bank means continual reporting to management of the results of the various Value-at-Risk calculations in the individual risk types (daily Value-at-Risk report by the Market Risk Control group via Erste Bank's electronic management information system, monthly and quarterly reports, and risk absorbing capacity calculation).

## Risk types

### Market risk

Fluctuation in interest rates, exchange rates, share prices and commodity prices creates market risks. Market risks derive both from short-term trading (the trading book) in instruments whose prices are quoted daily and from the traditional banking business (the banking book).

Taking into account the bank's risk-absorbing capacity and projected earnings, the Managing Board sets the aggregate limit in the Risk Committee. The aggregate limit is then allocated by the Market Risk Committee (MARA) based on a recommendation by the decentralised Financial Markets Risk Management unit. All market risk activities are assigned risk limits that, in the aggregate, are statistically consistent with the aggregate Value-at-Risk limit covering all market risks of Erste Bank. Limit compliance is verified at several levels: by the appropriate local risk management unit, by Risk Management Financial Markets and also by the independent Group Risk Control unit.

A key step in limit-setting is the estimation of the potential losses that could result from market movements. This amount – Value-at-Risk – is calculated at Group level on a daily basis and reported to the Managing Board via the electronic management information system. Value-at-Risk is determined by the historical simulation method. In its analysis Erste Bank uses a 99% confidence interval and holding periods of one and ten days. The validity of the statistical methods applied is constantly checked by backtesting.

Extreme market situations can exert a strong influence on the value of trading positions and thus have extraordinary effects on trading results. The main such events are market movements that have a low probability of occurrence. Relying on purely statistical methods such as Value-at-Risk to measure risk does not adequately take into account the consequences of crisis situations. For this reason Erste Bank reinforces its Value-at-Risk-based risk measurement with stress testing by several methods (historical worst, extreme value theory, scenario analysis). The results of these assessments are made available to the Managing Board via the electronic management information system.

The market risk model approved by the Austrian Financial Market Authority is used to determine the minimum regulatory capital requirements of the Erste Bank Group under the Austrian Banking Act. The calculation employs the most favourable multiplier possible (3), assigned by the Financial Market Authority on the basis of an appraisal by the Austrian National Bank.

### Credit risk

Credit risk arises in traditional lending business (losses incurred by the default of obligors or by the need to provision assets as a result of the deteriorating credit quality of borrowers) as well as from trading in market risk instruments (counterparty risk). Country risks are recognised implicitly in the calculation of credit risk.

The task of the Group Credit Risk Control unit within the Group Risk Control department in this context is the measurement of credit risk, using a portfolio model based on credit Value-at-Risk, for the entire credit business of Erste Bank AG and the largest foreign and domestic subsidiaries. Neither the Group Risk Control department nor the Group Credit Risk Control unit is involved in the operational credit decisions. That responsibility falls entirely to the relevant decentralised credit risk management units („Credit Risk Management International“ and „Credit Risk Management Austria“).

Measurement of credit Value-at-Risk is based on confidence levels of 95% and 99.95% (as in the total-bank risk management calculation of riskabsorbing capacity) and a risk horizon of one year. The central risk drivers in the portfolio model – the probabilities of default and transition probabilities for each customer segment – are determined based on the Group's own rating history and used in the calculation of credit Value-at-Risk.

The new standard risk cost model was introduced into Erste Bank AG's marginal costing at the beginning of 2005, using internal probabilities of default and transition probabilities. This measure was carried out in anticipation of the operational application of the Basel II provisions to credit pricing.

The development of stress test models required by the Austrian supervisory authorities for foreign currency and redemption payer lending was also completed in 2005 and has been implemented across the board at Erste Bank AG and in the savings banks.

### Operational risk

Erste Bank uses the same definition of operational risk as the Basel Committee on Banking Supervision (Basel II): “the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.” In keeping with current practice at most international banks, the responsibility for operational risks rests with line management. The identification and measurement of operational risks employs quantitative and qualitative methods.

The quantitative measurement methods are based on internal loss experience data, which are collated across the group using a standard methodology and entered in a central data pool. The proper transmission of loss reports is verified by the Internal Audit department. In order to factor in losses which have not occurred to date but are nevertheless possible, external data and scenarios are also used. A Value-at-Risk for operational risks is also calculated at Erste Bank AG, Česká spořitelna a.s. and Slovenská sporiteľňa a.s.

The Managing Boards of Erste Bank AG and CEE subsidiaries receive quarterly reports on changes in operational risks from local OpRisk managers.

On the qualitative side, the risk assessments method employed since the beginning of 2003 has been further developed. A simplified top-down approach is applied in the subsidiaries, with the help of risk mapping, which it will be possible to develop at a later date into risk assessment. Control instruments will be developed on the basis of this qualitative information, in order to support line management in decisions to reduce operational risks. Erste Bank is working on an international study to define key risk indicators which can then be used as a potential risk early warning system.

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Since the beginning of 2004 the insurance cover obtained by the Erste Bank Group is combined in a group-wide insurance programme. By means of this approach, the cost for the Group's traditional property insurance needs was reduced, making it possible to buy additional insurance for previously uninsured banking-specific risks. The combination of potential economies and additional insurance cover, without an increase in overall cost, is achieved by retaining part of the losses in a captive reinsurance firm, thus permitting diversification of risk in the Group.

Another chapter on the subject of operational risk has been added to the *Erste Bank Risk Rulebook*, defining the framework of operational risk management and control.

#### **Business risk (fixed-costs risk)**

Business risk, or fixed-costs risk, is defined by Erste Bank as the risk that an unexpected decline in revenues will lead to a loss because of the inflexibility of fixed costs. Known also as operating leverage risk, business risk thus reflects the degree of volatility of the major income and revenue items in Erste Bank's contribution margin accounting. Such unexpected fluctuations in income may be caused by changes in the competitive environment or customer behaviour or by technological advances.

#### **Controlling Erste Bank's overall risk**

At Erste Bank AG, the regulatory requirements for qualitative risk management that result from pillar 2 of Basel II (Supervisory Review Process) and from the ICAAP (Internal Capital Adequacy Assessment Process) consultation paper are fulfilled by the risk absorbing capacity calculation which has been in use for years and by risk-adjusted performance measurement.

#### **Determination of risk absorbing capacity**

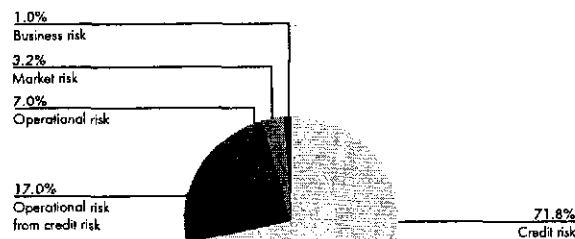
It follows from the risk absorbing capacity calculus that the objective of an overall risk control function must be to ensure the credit institution's continued solvency. The central tool for

safeguarding this continued solvency of Erste Bank AG is the calculation of risk absorbing capacity. In this computation, the Value-at-Risk resulting from the different risk types is aggregated to arrive at the total potential loss from the assumption of risk (Economic Capital) and this loss potential is then compared in a multi-stage process to the resources (earnings potential, reserves and equity) available to cover these potential losses. Aside from the risk actually measured, a safety buffer and the existing risk limits are also taken into account on a Value-at-Risk basis. The point of this comparison is to determine the extent to which the bank is in a position to absorb potential unexpected losses (calculation of risk absorbing capacity). Risk absorbing capacity thus represents a limit for the aggregate risk activities of Erste Bank. Based on the bank's measured ability to bear risk, the Managing Board establishes an aggregate bank limit at the quarterly Risk Committee meeting.

The measure of risk used to calculate this aggregate bank limit is the Economic Capital that the bank must hold in order to cover its risk. This Economic Capital is defined as the minimum capital necessary on an annual basis to cover unexpected losses at a confidence level of 99.95%, derived from the default probability of Erste Bank's target rating. The objective of calculating this figure is to determine the amount of capital needed in order to ensure Erste Bank's continued viability even in extreme loss scenarios. This figure also allows for comparative measurement and aggregation of all risks. In parallel with this approach based on Economic Capital, the risk absorbing capacity is also calculated at a much lower confidence level of 95% and conveyed to the management as supplementary information.

### Erste Bank AG's aggregate risk by risk type (unaudited)

#### Allocation of Economic Capital (99.95% confidence level) at 31 December 2005



### Risk-adjusted performance measurement (RAPM) and shareholder value added

Building on this calculation of risk throughout the bank based on Value-at-Risk for the different types of risk, Erste Bank can use the Economic Capital determined for each business area as the crucial component in the calculation of risk-adjusted Return on Economic Capital (RoEC). This figure compares all revenue with the risk that is taken in generating it, using Economic Capital as the measure of risk. As part of measuring risk-adjusted performance (RAPM), a comparison is drawn between the results of marginal costing based on regulatory capital and the results based on Economic Capital.

Return on Economic Capital (RoEC) is determined for each business unit. This extends the existing controlling tools, such as marginal costing based on regulatory capital – by also making available to management the information it needs to view the entire bank through the lens of risk-return ratios. Going beyond the determination of regulatory capital adequacy, this parallel computation also lays the foundation for risk-efficient capital allocation based on risk-adjusted performance measurement (RAPM). Thus, Economic Capital and RoEC combine risk limit setting aimed at preserving the bank's continued existence (Going Concern Principle) with active risk and capital management geared to increasing Erste Bank's enterprise value for its shareholders (adding shareholder value).

### Decentralised risk management

The decentralised Financial Markets Risk Management group within the Treasury business unit is responsible for the day-to-day control of the market risk associated with trading activities. It oversees market risk limits and counterparty limits. Other key duties include risk reporting, supporting the trading desk, legal support, testing of new products and – in co-ordination with Group Risk Control – market risk management.



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The Treasury unit is also where market risks relating to the banking book are measured. The Balance Sheet Management group submits monthly reports to the Asset Liability Committee (ALCO) on the interest rate risk of Erste Bank Group and the savings banks group, to be used as a basis for adjusting balance sheet risks.

The responsibility for operational credit risk management rests with two service units: Credit Risk Management Austria and Credit Risk Management International. Foreign branches and subsidiaries have their own risk management units as required.

#### **Basel II**

In order to fulfil the requirements of the new capital adequacy regulations (Basel II), a dedicated Basel II programme was set up in the Erste Bank Group. Its technical direction is provided by the Strategic Risk Management unit.

#### **ICAAP – implementation in Savings Bank group**

A concept has been developed in a joint working party with savings banks, the Savings Bank Association and the Savings Bank Audit Association, which takes account of the principle of proportionality. This puts the conditions in place for meeting the quantitative requirements of Basel II/Pillar II and ICAAP. This concept of a capital adequacy assessment for savings bank has been put into practice by the Savings Bank Association and has been available to all savings banks as an on-line tool since the autumn of 2005.

#### **Advanced approaches to measuring credit, market and operational risk**

Erste Bank AG is an active participant in the consultation process shaping the new capital adequacy regulations for banks. Erste Bank's goal is to qualify for advanced approaches (according to the Basel II definition) when the new provisions enter into force.

For credit risk, Erste Bank seeks to apply the Advanced IRB Approach in the retail segment and the Foundation IRB Approach in all other Basel segments. For the measurement of market risk in the trading book, an internal model approved by the Austrian Financial Market Authority is already in place, and the model for measuring interest rate risk in the banking book already satisfies the Basel II requirements to a large extent. In the area of operational risk, Erste Bank is working to qualify for an Advanced Measurement Approach (the loss distribution approach) when the new provisions take effect. The decision as to which approach will ultimately be used to determine capital adequacy depends on the final form of the qualitative and quantitative requirements.

**Credit exposure**

	Total loans and advances to credit institutions and customers (incl. fixed-income securities)	Guarantees/ letters of credit	Total 2005	Total restated 2004
in EUR million				
Banking and insurance	44,986	3,433	48,419	43,203
Consumers	27,927	106	28,033	23,454
Public administration, social security	20,063	1,601	21,664	20,109
Manufacturing	6,902	1,478	8,380	7,966
Real estate	13,197	822	14,019	12,176
Retail	7,535	640	8,175	7,955
Construction	3,128	1,146	4,274	4,108
Hotels and restaurants	3,224	192	3,416	2,884
Transport and communication	2,628	305	2,933	2,745
Energy and water supply	1,297	137	1,434	1,570
Other	5,837	269	6,106	5,822
<b>Total</b>	<b>136,724</b>	<b>10,129</b>	<b>146,853</b>	<b>131,992</b>

The total comprises loans and advances to credit institutions and customers, fixed-income securities held in the trading portfolio, held as fair value through profit or loss as well as available for sale and as financial investments (held to maturity portfolio), and finally off-balance-sheet credit risks.

The changes in risk provisions are explained in Notes 2 and 13.

**Interest rate risk**

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities (including off-balance-sheet items) in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped in order of maturity bands based on their remaining term to maturity or term to an interest rate adjustment.

The following tables list the open fixed-income positions held by the Erste Bank Group in the four currencies that carry significant interest rate risk: the euro, Czech koruna, Slovak koruna and Hungarian forint.

Only those open fixed-income positions are shown which are not allocated to the trading book. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.



**Open fixed-income positions not assigned to  
 the trading book (unaudited)**

	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
<b>In million</b>					
Fixed-interest gap in EUR positions at 31 December 2005	-1,652.1	-654.4	1,684.9	1,064.4	195.2
Fixed-interest gap in CZK positions at 31 December 2005	-11,559.5	-14,880.1	14,370.9	12,948.5	10,050.9
Fixed-interest gap in SKK positions at 31 December 2005	3,937.5	522.8	1,579.9	8,763.5	525.9
Fixed-interest gap in HUF positions at 31 December 2005	-12,635.9	57,505.2	1,313.5	257.9	33.7

**Hedging**

The goals of market risk management for the banking books of the Erste Bank Group are to optimise the risk position while taking into account the economic environment, competitive situation, market value risk and effect on net interest income; to maintain an appropriate liquidity position for the Group; and to centrally manage all market risks inherent in the banking book via the Group's Asset Liability Committee.

In keeping with the goals of risk management, hedging activities focus on the two main control variables – net interest income and market value risk. Two kinds of instruments are available with which to manage these variables: Cash flow hedges are used to mitigate interest rate risk. Fair value hedges are employed to reduce market risk.

Fair value hedges are currently used to turn fixed-income or structured transactions into variable-income transactions. The current policy on debts evidenced by certificates is to use fair value hedges to convert those issues that are not money-market-

linked into issues that are. Other fair value hedges were set up for part of the syndicated loan portfolio and for fixed interest loans.

Interest rate swaps and floors are the main instruments used for these fair value hedges. In connection with issuance, fair value is also hedged by means of cross currency swaps, swaptions, caps, floors and other options.

Cash flow hedges are used for three objectives: to turn money-market-linked transactions into fixed-interest transactions and thus reduce interest rate risk; to safeguard a minimum interest rate via floors; and to hedge anticipated foreign-currency income against exchange-rate risk. Some of the revolving money market liabilities are currently converted into fixed-interest transactions. Floors are used to secure a minimum interest rate on money market-linked loans in case of declining market interest rates.

Interest rate swaps and floors were employed to hedge interest cash flows. Currency risk was hedged with spot transactions.

## 33) Total volume of unsettled derivatives at 31 December 2005

	NOMINAL AMOUNT BY REMAINING MATURITY			FAIR VALUE		
	< 1 year	1-5 years	> 5 years	Total	Positive	Negative
in EUR million						
<b>Interest rate contracts</b>						
OTC products						
- Interest rate options						
Purchase	9,689	12,474	6,531	28,694	542	-15
Sell	8,801	12,328	6,549	27,678	12	-593
- Interest rate swaps						
Purchase	102,988	37,860	24,549	165,397	5,893	-461
Sell	111,503	34,233	19,711	165,447	449	-5,360
- FRA's						
Purchase	13,434	979	-	14,413	4	-7
Sell	13,487	979	-	14,466	6	-4
Listed products						
- Futures						
Purchase	3,024	50	55	3,129	2	-
Sell	2,268	441	462	3,171	-	-
- Interest rate options						
Purchase	1,727	-	193	1,920	2	-
Sell	465	-	-	465	-	-2
<b>Currency contracts</b>						
OTC products						
- Currency options						
Purchase	5,426	280	-	5,706	32	-
Sell	5,430	223	-	5,653	-	-30
- Currency swaps						
Purchase	39,392	1,494	2,181	43,067	430	-531
Sell	38,798	1,876	1,940	42,614	602	-276
Listed products						
- Futures						
Purchase	151	-	-	151	1	-2
Sell	49	-	-	49	-	-

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	NOMINAL AMOUNT BY REMAINING MATURITY			Total	FAIR VALUE	
	< 1 year	1-5 years	> 5 years		Positive	Negative
in EUR million						
<b>Precious metal contracts</b>						
OTC products						
- Precious metal options						
Purchase	22	-	-	22	-	-
Sell	22	-	-	22	2	-
<b>Securities-related transactions</b>						
OTC products						
- Stock options						
Purchase	115	88	141	344	46	-7
Sell	206	180	1,788	2,174	1	-45
Listed products						
- Futures						
Purchase	158	1	-	159	-	-1
Sell	221	-	-	221	-	-
- Stock options						
Purchase	375	18	-	393	1	-
Sell	1,130	-	-	1,130	-	-1
<b>Total</b>	<b>358,881</b>	<b>103,504</b>	<b>64,100</b>	<b>526,485</b>	<b>8,025</b>	<b>-7,335</b>
Thereof OTC products						
Purchase	171,066	53,175	33,402	257,643	6,947	-1,021
Sell	178,247	49,819	29,988	258,054	1,072	-6,308
Thereof listed products						
Purchase	5,435	69	248	5,752	6	-3
Sell	4,133	441	462	5,036	-	-3

**34) Fair value of financial instruments**

In the table below, the (unaudited) fair values of individual balance sheet items are compared to the corresponding carrying amounts.

The market value is the sum which can be obtained from the sale of a financial instrument on an active market or which would have to be paid in order to purchase the instrument in question. Financial instruments are measured on the basis of market prices, where available, and on standardised, generally accepted valuation models where no market price is available. Cash values are established for linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards, forward rate agreements) by discounting the replicating cash flows. Plain

vanilla OTC options (on shares, currencies and interest rates) are valued using Black Scholes option price models and complex interest rate derivatives are valued using Hull White and/or BGM models. Credit derivatives are valued using hazard rate models.

Erste Bank only uses valuation models which have been tested internally and which guarantee that the valuation parameter (e.g. interest rates, exchange rate, volatility) has been established independently.

For items without a contractual fixed maturity, the carrying amount was used.

	2005		restated 2004	
	Fair value	Carrying amount	Fair value	Carrying amount
in EUR million				
<b>ASSETS</b>				
Cash and balances with central banks	2,728	2,728	2,723	2,723
Loans and advances to credit institutions	16,854	16,858	15,703	15,684
Loans and advances to customers	80,624	80,419	73,331	72,843
Risk provisions	-2,817	-2,817	-2,804	-2,804
Trading assets	5,426	5,426	4,628	4,628
Fair value through profit or loss and available for sale	18,644	18,644	15,967	15,967
Financial investments	24,113	23,611	22,639	21,926
Derivatives in banking book (other assets)	530	530	564	564
<b>LIABILITIES</b>				
Amounts owed to credit institutions	33,833	33,911	28,590	28,551
Amounts owed to customers	72,668	72,793	68,220	68,213
Debts evidenced by certificates	21,291	21,291	19,710	19,710
Trading liabilities (other liabilities)	1,304	1,304	1,046	1,046
Subordinated capital	4,290	4,290	3,706	3,706
Derivatives in banking book (other liabilities)	236	236	288	288

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### 35) Contingent liabilities and other obligations

in EUR million	2005	restated 2004
Contingent liabilities		
Guarantees and warranties	10,130	8,335
Other	287	357
<b>Total</b>	<b>10,417</b>	<b>8,692</b>
Other obligations		
Undrawn credit and loan commitments, promissory notes	16,576	16,655
Other	1,317	797
<b>Total</b>	<b>17,893</b>	<b>17,452</b>

#### Legal proceedings Haftungsverbund

At the end of 2003, an Austrian competitor of Erste Bank alleged to the Austrian Financial Market Authority and to the Austrian Federal Competition Authority that the formation of the Haftungsverbund between Erste Bank and a number of the other Austrian savings banks violates European competition legislation.

At present, the Austrian Cartel Court (at the request of the Austrian Federal Competition Authority and the competitor) is reviewing the question of the applicability of European competition law to the cooperation under the Haftungsverbund between Erste Bank and the member savings banks. While banking groups such as the Haftungsverbund are explicitly exempt from Austrian competition rules, the plaintiffs argue that the Haftungsverbund has an effect on interstate commerce between Austria and other EU member states, and therefore EC competition rules have to be applied. In addition, the current cooperation under the Haftungsverbund between Erste Bank and the other members qualifies as a credit institute group according to the Austrian Banking Act. This allows Erste Bank to consolidate the qualifying capital (required under section

24 of the Austrian Banking Act) and the risk-weighted assets (required under section 22 of the Austrian Banking Act) of the members of the Haftungsverbund.

An examination by the Austrian Financial Market Authority of the validity of the competitor's allegations has already concluded that the Austrian Financial Market Authority shall continue to apply section 30 (2a) of the Austrian Banking Act and confirmed that the Haftungsverbund qualifies as a credit institute group.

The consolidation of Haftungsverbund members' qualifying capital and risk-weighted assets originally resulted in a 0.55 percent improvement in the core capital ratio of the Erste Bank Group. Thus, even without the qualifying capital of the other Haftungsverbund member savings banks, Erste Bank would comply with the statutory minimum levels of regulatory capital.

In order to quickly resolve these proceedings, Erste Bank, together with some other members of the Haftungsverbund, filed an application with the Austrian Cartel Court in December 2004 for a declaratory decision that the Haftungsverbund qualifies as a "Zusammenschluss" (merger) within the meaning of the Austrian Cartel Act. If the Austrian Cartel Court finds that the Haftungsverbund is in fact a merger, the rules regarding cooperation agreements would not be applicable, and thus the abovementioned proceedings would be terminated.

#### **State aid Erste Bank Hungary**

The European Commission is currently reviewing past state aid granted by the governments of the newly acceded EU member states with respect to their conformity with EU standards for the period after the accession date of 1 May 2004.

With respect to Hungary's Postabank, the European Commission has informed Hungary that it has serious doubts about the compatibility of an "indemnity for unknown claims" granted by the Republic of Hungary to Erste Bank with the *Acquis Communautaire*. It has therefore decided to object to that measure. The European Commission has subsequently initiated the formal investigation procedure laid down in Article 88 (2) of the EC Treaty against Hungary. This investigation, in which Erste Bank participates as an affected third party, is still pending and no decision has yet been taken.

#### **Salzburger Sparkasse**

In November 2005, Salzburger Sparkasse reached an agreement in court with the plaintiff attorneys to settle the WEB-IMMAG case, in which some three thousand former WEB-IMMAG investors, with the support of the Verein für Konsumentenschutz, had brought civil suits against Salzburger Sparkasse claiming alleged damages plus interest in a total amount of EUR 127 million. Salzburger Sparkasse undertook to pay an amount of about EUR 19.7 million (including legal fees of EUR 0.6 million) to the plaintiffs. The plaintiffs' attorneys in turn undertook, among others, to not represent clients against Salzburger Sparkasse in relation to the WEB-IMMAG issue any more. After the plaintiffs had given the consents required for the settlement to become enforceable, payment of the settlement amount was effected in January 2006. The payment was made by Erste Bank.

#### **Austrian Cartel Court ruling on Central European acquisitions**

In 2005, Erste Bank applied to the Austrian Cartel Court for a declaration that the acquisitions of majority interests in Česká spořitelna a.s., Slovenská sporiteľňa a.s., Postabank and Riječka Banka between 2000 and 2003 were not subject to merger control requirements. Such court subsequently decided that the acquisitions of Postabank and Riječka Banka were not subject to domestic merger control but that the acquisitions of Česká spořitelna a.s. and Slovenská sporiteľňa a.s. were not exempt from the notification requirements of Section 41 et seq. of the Austrian Cartel Act. This decision is not final and Erste Bank has filed an appeal to the Austrian Supreme Court (the appellate court in cartel matters). A final decision by the Austrian Supreme Court has not yet been rendered.

As a precautionary measure, Erste Bank formally applied for acquisition approval. On 14 October 2005, the Cartel Court approved the acquisitions of Česká spořitelna a.s. and Slovenská sporiteľňa a.s. and these decisions are final. Consequently, the decision of the Austrian Supreme Court will have no effect on Erste Bank in relation to its past Central European acquisitions, but will however provide a guideline for notification requirements for future acquisitions.

#### **Potential law suit by Deloitte Hungary against Erste Bank Hungary**

Deloitte Hungary has been sued by the Hungarian State alleging that as the majority shareholder of Postabank, the Hungarian State suffered losses of HUF 171 billion as a result of negligence by Deloitte Hungary in respect to its work as auditor of Postabank's financial statements for the year ended 31 December 1997, as well as the six month period ended 30 June 1997 and the period ended 31 July 1998. The Hungarian State alleges that Deloitte Hungary was negligent in not uncovering certain transactions which disguised losses suffered by Postabank, as well as uncertainties in relation to

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Postabank's provisioning and certain other matters. The State alleges that if Deloitte Hungary had uncovered these problems as part of its audit, the shareholders of Postabank would have taken corrective action which would have prevented further losses. In July 2005 the court of first instance found that Deloitte Hungary and the Hungarian State were each 50% liable for the errors in Postabank's financial statements, since the situation of Postabank at the time should have been evident to the Hungarian State. The question of damages is now being considered.

Deloitte Hungary has indicated to Erste Bank Hungary that if it is found liable, it will bring suit against Erste Bank Hungary as the successor to Postabank alleging that any errors in the financial statements of Postabank were the result of erroneous data provided by Postabank to Deloitte Hungary. Erste Bank currently expects that a lawsuit would not be filed until the case between Deloitte Hungary and the Hungarian State is resolved in a final judgement, which is not expected to occur for at least three years. However, there is no certainty as to whether, and if so when such a lawsuit would be filed.

#### **Ruling of the Supreme Court concerning the adjustment of saving deposit rates**

In a ruling published in January 2006 the Austrian Supreme Court has declared certain clauses used by an Austrian competitor in his terms and conditions for savings passbooks to be contrary to the consumer protection law. One of these clauses deals with the right of the credit institute to unilaterally change the savings deposit rate. This clause is not only used by the competitor, but by most Austrian credit institutes, including Erste Bank. According to the ruling of the Supreme Court a credit institute may not adjust the interest rate of a savings passbook unilaterally and without having more closely stipulated the conditions for such adjustment in advance, unless such adjustment is reasonable, in particular because the change is only minor and objectively justified.

In its public statements the Verein für Konsumentenschutz, an Austrian consumer protection organisation, argues that as a result of this landmark decision there does not only exist a duty on the part of the credit institutions effected to change the interest rate adjustment clause used so far for savings passbooks, but considers this ruling also to provide ground for a review whether past adjustments of the applicable interest rates for savings passbooks were objectively justified, including the review of the possibility for consumers to make claims against credit institutes retroactively. Such organisation has also announced that it would file further test cases in relation to the issue of interest rate adjustment for savings passbooks.

#### **Other**

As well, both Erste Bank and some subsidiaries are involved in legal disputes of a nature typically encountered during the conduct of ordinary business activities. It is currently unlikely that these legal proceedings will have material negative impact on the financial position or the results of operations of Erste Bank, as either appropriate provisions have already been made, or Erste Bank has rights of recourse, or the cases in question are of insignificant magnitude in the aggregate.

**36) Breakdown of remaining maturities at 31 December 2005**

	On demand	Up to 3 months	3 months - 1 year	1-5 years	>5 years
<b>in EUR million</b>					
Loans and advances to credit institutions	1,750	10,147	2,372	1,853	736
Loans and advances to customers	6,512	8,695	9,686	21,509	34,017
Trading assets	419	368	301	1,575	2,763
Fair value through profit or loss and available for sale	1,141	281	1,193	4,736	11,293
Held to maturity portfolio	6	945	2,246	8,024	3,901
<b>Total</b>	<b>9,828</b>	<b>20,436</b>	<b>15,798</b>	<b>37,697</b>	<b>52,710</b>
Amounts owed to credit institutions	2,629	26,171	2,040	1,984	1,087
Amounts owed to customers	27,822	12,828	9,452	10,507	12,184
Debts evidenced by certificates	387	4,093	2,531	6,620	7,660
Subordinated capital	-	39	76	556	3,619
<b>Total</b>	<b>30,838</b>	<b>43,131</b>	<b>14,099</b>	<b>19,667</b>	<b>24,550</b>

**37) Events after the balance sheet date**

On 21 December 2005, the share purchase agreement was signed for the acquisition by Erste Bank of 61.88% of the shares in the Romanian Banca Comerciala Romana S.A. (BCR). Erste Bank has acquired 36.88% from the Romanian government and 12.5% plus one share from both the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). The provisional purchase price (net of additional costs) amounts to EUR 3.75 billion. Closing (and hence definitive acquisition) is scheduled for the 2nd quarter of 2006.

On 9 January 2006, the Managing Board of Erste Bank AG decided, with the assent of the Supervisory Board, to increase the share capital of Erste Bank der oesterreichischen Sparkassen AG, in order to finance the purchase of BCR and strengthen the capital basis, by issuing approximately 58.95 million shares plus 10% greenshoe, issuing a total of up to approximately 64.85 million new shares. The subscription period for the new shares began on 11 January and ended on 26 January 2006. With the full greenshoe quota used, a total of 64,848,960 new shares were issued at an issue price of EUR 45. The subscribed share capital was increased by EUR 129.7 million.



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### 38) Boards of Erste Bank der oesterreichischen Sparkassen AG

#### SUPERVISORY BOARD

Heinz Kessler, President  
Klaus Braunegg, until 11 May 2005, First Vice President  
Georg Winckler, from 11 May 2005, First Vice President

Theresa Jordis, Second Vice President  
Bettina Breiteneder  
Elisabeth Gürtler

Jan Homan  
Werner Hutschinski  
Josef Kassler  
Lars-Olof Ödlund  
Wilhelm Rasinger, from 11 May 2005  
Friedrich Rödler  
Hubert Singer

Retired CEO  
Attorney at law  
Rector of the University of Vienna  
Professor of Economics at the University of Vienna  
Attorney at law  
Businesswoman  
Businesswoman  
Member of the Management Board of the  
Austrian Hotel Association  
Chief Executive Officer of Teich AG  
Retired General Manager  
Retired CEO  
Senior Advisor  
Businessman  
Public Accountant and Tax Consultant  
Chief Executive Officer of Dornbirner Sparkasse AG

#### REPRESENTATIVES OF THE STAFF COUNCIL

Günter Benischek  
Erika Hegmala  
Ilse Fetik  
Joachim Härtel  
Christian Havelka  
Anton Janku

Chairman of the Central Staff Council  
Vice Chairwoman of the Central Staff Council  
Member of the Central Staff Council  
Member of the Central Staff Council  
Member of the Central Staff Council  
Member of the Central Staff Council

#### REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Robert Spacek  
Dietmar Griebler, from 1 February 2005  
Sabine Kanduth-Kristen  
Eduard Moser  
Irene Kienzl  
Anton Rainer

Senate Councillor, State Commissioner  
Senate Councillor, Deputy State Commissioner  
State Controller for Premium Reserve  
Deputy State Controller for Premium Reserve  
Trustee for Guarantee of Mortgage and Municipal Bonds  
Deputy Trustee for Guarantee of Mortgage  
and Municipal Bonds

#### MANAGING BOARD

Andreas Treichl  
Elisabeth Bleyleben-Koren  
Reinhard Ortner  
Franz Hochstrasser  
Erwin Erasim  
Christian Coreth

Chairman  
Vice Chairwoman  
Member  
Member  
Member  
Member

**39) Details of the holdings of  
the Erste Bank Group at 31 December 2005  
Ownership of the Erste Bank Group**

The explanations concerning the basis of consolidation, taking account of the Haftungsverbund Agreement between Erste Bank AG and Austrian savings banks, are presented at the beginning of the Notes.

The reported equity and earnings figures were generally prepared in accordance with IFRS and may therefore differ from

the financial statements of the individual companies prepared according to local policies and from the presentation for the purpose of segment reporting.

The net income reported is equivalent to net income/loss after tax (but before allocations to reserves).

The indirectly held shares reported do not include shares held via savings banks consolidated within the Haftungsverbund Agreement.

Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit- transfer <sup>1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>2)</sup>
<b>1.) Credit institutions</b>						
Allgemeine Sparkasse Oberösterreich						
Bankaktiengesellschaft, Linz (Group)	26.9%	456.4	54.1		31.12.2005	F
Bausparkasse der österreichischen Sparkassen						
Aktiengesellschaft, Vienna	98.0%	123.7	15.0	X	31.12.2005	F
Česká spořitelna a.s., Prag (Group)	98.0%	1,523.1	309.8		31.12.2005	F
Erste & Steiermärkische banka d.d., Rijeka	51.4%	240.8	46.9		31.12.2005	F
Erste Bank (Malta) Limited, Sliema	100.0%	129.9	9.0		31.12.2005	F
ERSTE BANK AD NOVI SAD, Novi Sad	95.6%	17.2	-7.6		31.12.2005	F
Erste Bank Hungary Rt., Budapest (Group)	99.9%	322.3	75.8		31.12.2005	F
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Vienna	84.3%	13.1	25.5	X	31.12.2005	F
Europay Austria Zahlungsverkehrssysteme GmbH, Vienna	3.1%	44.5	18.0		31.12.2004	E
Intermarket Bank AG, Vienna	21.3%	25.2	3.7		31.12.2005	E
Kapital-Beteiligungs Aktiengesellschaft, Vienna	15.0%	8.8	0.1		30.09.2005	N
Kärntner Sparkasse Aktiengesellschaft, Klagenfurt (Group)	25.0%	287.4	31.7		31.12.2005	F
NÖ Beteiligungsfinanzierungen GmbH, Vienna	30.0%	3.0	0.1		30.09.2005	E
NÖ Bürgschaften GmbH, Vienna	25.0%	6.5	-		31.12.2004	E
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna (Group)	12.9%	269.8	24.7		31.12.2004	N
Österreichische Hotel- und Tourismusbank						
Gesellschaft m.b.H., Vienna	18.8%	26.9	1.2		31.12.2005	N
Prvá stavebná sporiteľna, a.s., Bratislava (Group)	35.0%	199.7	9.6		31.12.2005	E
s Wohnbaubank AG, Vienna (Group)	90.7%	32.5	2.9	X	31.12.2005	F
Salzburger Sparkasse Bank Aktiengesellschaft, Salzburg	98.7%	168.0	9.5	X	31.12.2005	F
Slovenská sporiteľňa a.s., Bratislava (Group)	100.0%	505.6	92.6		31.12.2005	F

<sup>1)</sup> Profit transfer agreement with Erste Bank AG

<sup>2)</sup> F Fully consolidated, E Consolidated at equity, N Not consolidated

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Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit-transfer <sup>1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>2)</sup>
„Spar - Finanz“ - Investitions- und Vermittlungs-Aktiengesellschaft, Vienna	50.0%	3.7	0.1		31.12.2005	E
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg	75.0%	28.4	4.2	X	31.12.2005	F
Sparkasse Kremstal-Pyhrn Aktiengesellschaft, Kirchdorf	24.1%	46.6	6.7		31.12.2005	F
Sparkasse Mühlviertel-West Bank Aktiengesellschaft, Rohrbach	40.0%	49.8	4.4		31.12.2005	F
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft, Voitsberg	6.3%	26.3	1.3		31.12.2005	F
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz (Group)	25.0%	687.2	66.7		31.12.2005	E
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, Innsbruck (Group)	74.7%	171.7	14.6		31.12.2005	F
<b>2.) Other financial institutions</b>						
EBV - Leasing Gesellschaft m.b.H. & Co. KG., Vienna	100.0%	2.1	0.6		31.12.2005	F
Erste Corporate Finance GmbH, Vienna	100.0%	0.7	0.2		31.12.2005	F
Erste Securities Polska S.A., Warschau (Group)	100.0%	4.7	0.5		31.12.2005	F
Erste Securities Zagreb d.o.o., Zagreb	97.6%	2.2	0.7		31.12.2005	F
IMMORENT Aktiengesellschaft, Vienna (Group)	100.0%	418.3	58.6	X	31.12.2005	F
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H., Eisenstadt	50.0%	3.0	0.4		31.12.2004	N
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung, Vienna	100.0%	30.2	2.8		31.12.2004	N
s Autoleasing GmbH, Vienna	100.0%	0.1	0.1		31.12.2005	F
„Wohnungseigentümer“ Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling	26.0%	20.5	3.7		31.12.2004	N
<b>3.) Others</b>						
ARWAG Holding-Aktiengesellschaft, Vienna (Group)	19.2%	54.6	12.5		31.12.2004	N
AVS Beteiligungsgesellschaft m.b.H., Innsbruck	51.0%	99.5	0.9		31.12.2005	F
BMG-Warenbeschaffungsmanagement GmbH, Vienna	55.9%	-	-		31.12.2005	F
Budapesti Értéktőzsdé Rt, Budapest	12.2%	21.3	4.2		31.12.2004	N
Capexit Private Equity Invest AG, Vienna (Group)	93.9%	12.8	-1.3		31.12.2005	F
CSSC Customer Sales Service.Center GmbH, Vienna	46.9%	-	-		31.12.2005	F
Dezentrale IT-Infrastruktur Services GmbH, Vienna	74.4%	-	-	X	31.12.2005	F
Donau Allgemeine Versicherungs-Aktiengesellschaft, Vienna	8.5%	84.1	9.6		31.12.2004	N
EB-Beteiligungsservice GmbH, Vienna	99.8%	-	-	X	31.12.2005	F
EB-Malta-Beteiligungen Gesellschaft m.b.H., Vienna	100.0%	131.6	10.2		31.12.2005	F

<sup>1)</sup> Profit transfer agreement with Erste Bank AG

<sup>2)</sup> F Fully consolidated, E Consolidated at equity, N Not consolidated

Company name, domicile	Interest in %	Shareholders' equity in EUR million	Net income in EUR million	Profit-transfer <sup>1)</sup>	Balance sheet date	Inclusion in Consolidated Financial Statements <sup>2)</sup>
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.0%	-	-	X	31.12.2005	F
ecetra Internet Services AG, Vienna(Group)	100.0%	17.8	-3.9		31.12.2005	F
ECO Unternehmensbeteiligungs-GmbH, Vienna	100.0%	17.7	-0.9		31.12.2005	F
Erste Reinsurance S.A., Luxemburg	100.0%	15.0	-		31.12.2005	F
GESCO Gesellschaft für Unternehmens-communication GmbH, Vienna	55.8%	0.9	-1.1		31.12.2005	F
Informations-Technologie Austria GmbH, Vienna	25.9%	22.5	0.2		31.12.2005	E
OM Objektmanagement GmbH, Vienna (Group)	100.0%	83.4	16.7	X	31.12.2005	F
s Haftungs- und Kundenabsicherungs GmbH, Vienna	62.6%	0.2	-		31.12.2005	F
s Immobilienfinanzierungsberatung GmbH, Vienna	72.9%	-4.9	-0.2		31.12.2005	F
s REAL Immobilienvermittlung GmbH, Vienna (Group)	98.4%	1.7	0.7		31.12.2005	F
S Tourismus Services GmbH, Vienna	100.0%	4.8	-9.4		31.12.2005	F
SPARDAT Sparkassen-Datendienst Gesellschaft m.b.H., Vienna	73.4%	1.7	0.1		31.12.2005	F
Sparkassen Immobilien Aktiengesellschaft, Vienna (Group)	16.2%	224.7	5.0		31.12.2004	E
Sparkassen Versicherung Aktiengesellschaft, Vienna (Group)	61.9%	211.5	25.4		31.12.2005	F
Sparkassen Zahlungsverkehrabwicklungs GmbH, Linz	40.0%	0.4	-		31.12.2005	F
„Sparkassen-Haftungs Aktiengesellschaft“, Vienna	38.5%	0.2	-		31.12.2005	F
SporDat, spol. s.r.o., Bratislava	99.5%	1.0	0.9		31.12.2005	F
S-Tourismusfonds Management Aktiengesellschaft, Vienna	99.9%	42.9	1.0		31.12.2005	F
UBG-Unternehmensbeteiligungs-gesellschaft m.b.H., Vienna	100.0%	0.6	-		31.12.2004	N
VBV-Pensionskasse Aktiengesellschaft, Vienna	27.2%	46.3	9.1		31.12.2004	E
VERMREAL Liegenschaftserwerbs- und betriebs GmbH, Vienna	25.6%	8.2	0.1		31.12.2005	E
VMG-Erste Bank Versicherungsmakler GmbH, Vienna	100.0%	0.2	0.2	X	31.12.2005	F
WED Holding Gesellschaft m b H., Vienna	19.2%	11.5	-		31.12.2004	N
Wiener Börse AG, Vienna	10.1%	30.3	6.2		31.12.2004	N

<sup>1)</sup> Profit transfer agreement with Erste Bank AG

<sup>2)</sup> F Fully consolidated, E Consolidated at equity, N Not consolidated

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Vienna, 6 March 2006

**The Managing Board**

Andreas Treichl mp  
Chairman

Elisabeth Bleyleben-Koren mp  
Vice Chairwoman

Reinhard Ortner mp  
Member

Franz Hochstrasser mp  
Member

Erwin Erasim mp  
Member

Christian Coreth mp  
Member

**AUDITORS' REPORT**

We have audited the consolidated financial statements of Erste Bank der oesterreichischen Sparkassen AG, Vienna, for the fiscal year from January 1, 2005 to December 31, 2005. Management is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and for the preparation of the management report in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report is in accordance with the consolidated financial statements.

We conducted our audit in accordance with Austrian Standards on Auditing and the applicable Austrian laws and regulations and International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement and whether we can state that the management report is in accordance with the consolidated financial statements. In determining the audit procedures we considered our knowledge of the business activity, the economic and legal environment of the group and expectations about potential errors. An audit involves procedures to obtain evidence about amounts and disclosures in the consolidated financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections. In our opinion the consolidated financial statements of Erste Bank der oesterreichischen Sparkassen AG are in accordance with legal requirements and present fairly, in all material respects the financial position of the company as of December 31, 2005 and of the results of its operations and its cash-flows for the fiscal year from January 1, 2005 to December 31, 2005 in accordance

with International Financial Reporting Standards (IFRSs) as adopted by the EU. The management report is in accordance with the consolidated financial statements.

Vienna, 6 March 2006

**Sparkassen-Prüfungsverband  
Prüfungsstelle**

Friedrich Hief  
Public Accountant

Erich Kandler  
Public Accountant

**Deloitte Wirtschaftsprüfungs  
GmbH**

Kurt Schweighart  
Public Accountant

Thomas Becker  
Public Accountant

# Imprint

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**IMPORTANT INFORMATION:** We have prepared this annual report with the greatest possible care and have thoroughly checked the data presented in it. However, we cannot rule out errors associated with rounding, transmission, typesetting or printing. The English- and Czech-language annual reports are translations. Only the German version is definitive.



